
ROHR ALERT!! Charge of the Flight Brigade

1 message

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Fri, Oct 1, 2021 at 11:07 AM

Dear Subscribers,

While there has been a bit of a reversal on some very interesting positive news this morning (more below), in general the previous 'risk-on' psychology investors had taken flight by late Thursday morning. That was on December S&P 500 future again failing the key 4,348 level we heavily highlighted since early last week.

As noted since Wednesday's 'US Equities Déjà Vu' ALERT!! (repeated below for your ease of access), *"The market doesn't repeat, but it rhymes." In a modified way, the December S&P 500 future 4,348 area has reverted to the key support again this week on the renewed yield escalation pressure. And much like last week, it was temporarily violated relatively early this week..."* However, previous that seemed to be on yield escalation indicated by weakness of global govies.

That is not so much the case anymore, with extended signs of global economic weakness on the sustained impact of the COVID-19 pandemic leading to much lower expectations. And as we have often noted, US equities classically do not succumb to any single negative influence. The current multiple weaker influences is what brought to mind Alfred, Lord Tennyson's heroic 1854 poem "Charge of the Light Brigade" as today's title (with apologies to the long-dead UK Poet Laureate for the parody to relate it to the current flight of previously sanguine bulls.)

It memorializes the heroic charge of British Light Cavalry into withering cannon fire at the Battle of Balaclava earlier that Fall. On the way in they faced enfilades on all three sides, and after they had finished their action it was the same on the way back out... *"Cannon to right of them, Cannon to left of them, Cannon behind them Volleyed and thundered..."* It must feel a bit like that to the previously still bullish 'risk-on' psychology investors who are seeing multiple problems now.

Having moved from our own more bullish Evolutionary Trend View (ETV) as the front month S&P 500 future stalled into weekly Oscillator thresholds in early September, there was always still the question of just how much of a correction would discount the 'macro' influence shift. After last week's Evergrande-driven weakness below 4,348 abated on diminished fears over the impact of its missed bond interest payment, the December S&P 500 future recovered well back above the 4,348 area... pushing back above a weekly channel 4,410 DOWN Break.

Once that failed to hold, it was back down into the 4,348 area. That was assumed to be in part on the pressure from the past two weeks rising yields, exacerbated by further global govies weakness to new recent lows this week. However, the renewed US equities weakness Thursday along with developed currencies and emerging currencies maintaining previous weakness was definitely not on any further yield escalation. In fact, global govies recovered from key lower support levels late Thursday into this morning. So what could the matter be?

Well, on a multiple problems scenario, the cannon fire on three sides is from one flank on the newly infused question over previously assumed US fiscal support for the economy. The issue is the Democratic Party 'moderates' not supporting the full 'progressives' \$3.5 trillion extended 'social infrastructure' plan.

As you are likely already well aware, this is after a bipartisan \$1.2 trillion 'classic infrastructure' plan was approved by negotiators from both parties months ago. However, as the progressives are bound and determined to see the broader 'unconventional infrastructure' plan pass Congress, they are

threatening to scuttle the \$1.2 trillion plan unless their moderate members go along with the ‘unconventional infrastructure’ plan. This would be an act of political suicide.

In one of our classical brief insights into the US political undercurrents, the progressives have been running around for months saying that “*because the Democratic Party holds the White House and ‘controls’ (not really true) both houses of Congress*”, they should be able to pass both bills. The truth is that with such a slim legislative majority in the House and a tied Senate, they only control when any piece of legislation commands total support from all party members.

The minutiae of the price level and key program specifics of the ‘unconventional infrastructure’ plan are less important than the problem that occurs if the demand it be passed leads to the failure of the ‘classic infrastructure’ plan. In that case, there will be no success for President Biden’s agenda in the first year of his term. That is along with seriously flagging approval ratings on the overall COVID-19 stubborn problems, Afghanistan withdrawal, and southern border immigration.

In the established context of the tendency for the party that won the presidential election to see slippage in its Congressional seats in midterm elections. With that already a consideration, the lack of any significant legislative progress from the Democrats would likely only exacerbate that tendency, which already portends a loss of both their Senate and House majorities. This is a good reason why (as opposed to his resistance to the first term Obama administration) Senate Minority Leader McConnell could not be happier in opposing Democrats at every turn.

If they fail to achieve any legislative victories (like at least the \$1.2 trillion ‘classic infrastructure’ plan), the Democrats have basically written Republican’s campaign ads for them for the 2022 election. Recall the progressives mantra, “*because the Democratic Party holds the White House and ‘controls’ (not really true) both houses of Congress*”? Well, all the Republicans need to do is add the idea that even with all of that they accomplished ‘nothing’... and “Do you really want to return these folks to Washington to waste more time and taxpayer dollars?”

This is why the next few days are so critical to not just the Democratic Party agenda and future political fortunes, but also whether any expected further fiscal support from the US government will be forthcoming at all. If not, it removes a source of actual economic activity in the form of fixing public transportation, seriously degraded roads and bridges, water systems, high-speed internet, and clean energy based on expanded electric vehicle programs. Going back to voters and saying “We’ve got nothing” would be a critical failure for the Democratic Party, and even more so would be a real disappointment for markets.

On the other flank is still elevated COVID-19 infections, deaths and restrictions in the US and elsewhere. The resilience of the pandemic based on the Delta variant spread is part of the broader problem affecting the global outlook. While there are increasing vaccination levels, the degree to which some key industrial centers like China still need to impose select quarantines has created, and will continue to create, drags on the performance of key functions; like shipping and retail.

Which gets back to the central cannon fire which is bothering the markets, and cannot be so easily reversed: a weaker Asian economy (based in good measure on China) driving lower global growth expectations into problems in Europe. Reuters posted a very good article (<https://reut.rs/3A1eRzk>) this morning on how the Asian economy led by China is no longer a reliable source of global growth.

However much the second quarter reopenings were very hopeful, there is little doubt that waned in the third quarter... as previously reported regarding the September 14th OECD Composite Leading Indicators (<https://bit.ly/3nxve3S>.)

Therefore, the thought that the US equities might hold a limited correction that seemed possible on the recovery from last week’s early week Evergrande debacle now seems to not be the case. And the idea it is only driven by higher yields also went by the wayside Thursday into this morning on the US equities weakness independent of any further global govies selloff, as they actually rallied a bit.

Yet that stubborn pandemic problem is where the 'good news' may make a difference in the intermediate-term. It was Merck pharmaceuticals announcement this morning that, along with its partner Ridgeback Biotherapeutics, it had developed a pill which (according to this morning's extensive Reuters article <https://reut.rs/2WwOval>) "...could half the chances of dying or being hospitalized for those most at risk of contracting severe COVID-19..." That self administered pill would be a real advance on the current in-hospital infusion requirement for the current COVID-19 acute symptom treatment, Gilead Science's Remdesivir.

Yet that has only brought a modest December S&P 500 future recovery back above the interim 4,300 area that was loosely held last week prior to being violated down to the 4,260 level overnight into this morning. Unless it is going to demonstrate at least the ability to recover back above the 4,348 area sometime soon, an extension of the correction down to the more prominent May-June 4,235-00 congestion or even the low 4,100 area congestion is very likely.

Courtesy Repeat of Thursday's 'On the Cusp' ALERT!!

As should be very apparent from our Wednesday 'US Equities *Déjà Vu*' ALERT!! (we suggest a read if not already done), the interplay between global govies and the other asset classes is a key Evolutionary Trend View (ETV) influence. Considering how far yields have risen (and prices have fallen) since early last week, the extended selloffs in both the emerging currencies as well as the more recent weakening of developed currencies should not be a surprise at this point.

As noted repeatedly in previous analysis, while they tend to be more insulated against initial inflation concerns due to higher pricing options, the US equities have also been under a bit more pressure of late. While last week that was due to the exigent factor of China's Evergrande problems, this week it seems to be more so on weaker data and higher yields. The latter has naturally affected the high flying tech NASDAQ more than mainstream stocks in the S&P 500 and DJIA.

That said, both last week and again this week we have been very keen to note the importance of the 4,348 front month S&P 500 future mid-August trading low as a key weekly Close level. Being generally back down into that area since Tuesday leaves the ETV there 'on the cusp'. That actually looks better than yield-impacted emerging currencies that have been significantly weaker of late (except for the Crude Oil-advantaged Russian ruble.) Even developed currencies have seen more of a US dollar 'haven' bid of late on the concerns over 'reopening' global growth.

Yet lo and behold, this is all also with the additional pernicious influence of the higher yields, most clearly expressed in recent weakness in the previously more resilient US T-note. As also noted previous, the front month US T-note future (September until last Tuesday's expiration) had churned not too far below its key 134-00 area for two months. Yet after it expired last Tuesday, December T-note future fell to the 132-00/131-16 support, which it traded slightly below this week.

That it has held not much worse than the low end of that range since Tuesday is a key ETV that leaves it 'on the cusp', with implications for the other asset classes. That is due to the degree to which the decision by global govies has potential to spill over into further weakness by both the US equities and other currencies against the US dollar. Beat down emerging currencies (i.e. outside of the resilient Russian ruble) are either right against, or even slightly below, key lower supports.

Key developed currencies like the euro have failed support over the past couple of days, leaving them vulnerable to more weakness as well if US yields should escalate further. The 'good news' under a classical "*bad news is good news*" psychology is that the 'rearview mirror' economic data has weakened a bit of late. That was capped off for today with a higher than expected levels of US Initial Jobless Benefits Claims. Maybe weaker data points have had some influence on the T-note holding against the low end of its once again critical current support, as well as the beleaguered December Bund future holding its 170.00-169.50 area.

Yet this is not just driven by near-term data, as the broader inflation expectations can also be a factor regardless of what the near-term data may communicate. The latest Fed view on that was in Chair Powell's comments at Wednesday's ECB central banking forum. As noted in a Reuters article

(<https://reut.rs/2Y2qqJ8>), he noted, “...(among) *his biggest concerns right now... ..is the possible clash between the Fed's two goals of stable prices and full employment, a situation that could force the Fed to make trade-offs between the two by raising interest rates to tame prices at a time when it still wants to encourage job growth.*”

Yet along with that he reiterated his view that the current inflation problem is substantially driven by economic reopening production ‘bottlenecks’, and not by any of the far more pernicious ‘wage-price spiral’ leading to stubbornly higher inflation expectations. As such, while economies may continue to strengthen overall, the Fed still expects a ‘normalization’ which will also cool inflation.

That is yet to be seen, and is always an issue insofar as it can also tend to ingrain inflation even in a slowing economy, as was seen in 1970s ‘stagflation’. Based on the current Fed view allowing more inflation, it has bought itself more time before it needs to act. Yet that is only as long as global govvies trends do not weaken further in a way that leaves the Fed looking like it is well ‘behind the curve’.

Contrary to much popular belief, neither the Fed nor other central banks control interest rates at the longer end of the curve. That is regardless of how aggressive their government bond buying QE programs may be at any point. Having seen multiple yield cycles, rising official rates are often only confirmation of what the bond market has dictated, regardless of what central bankers would like to see.

We’ve previously quoted, and return to a citation from the estimable Democratic political consultant James Carville. In response to the necessity for the Clinton administration to raise tax rates due to deficit worries driving higher yields back in 1994 he quipped, “*I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody.*”

That vintage view seems very apropos in the context of so many markets being ‘on the cusp’ of their further trend decisions after such interesting recent swings.

Courtesy Repeat of Wednesday’s critical consideration

After the early July downside reaction the recovery back above the 4,300 area violated support left the higher resistance into the previous week’s 4,360 DOWN Closing Price Reversal with a Tolerance to 4,364. That is clear on the S&P 500 future weekly chart (<https://bit.ly/3ickAw2> updated through Friday.) It is of note the September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

And the September S&P 500 future subsequently sustaining activity above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength as they were still rising \$25 per week. As such, the Oscillator indications remain important after what was the ‘lackluster jailbreak’ after the previous outstanding US Employment report. With the market dropping back below the 4,450 level two weeks ago (on weekly MA-41 up \$25), there seemed to finally be some real risk.

Yet even below the key lower interim levels into the recent 4,425 area congestion and 4,380-65 area bottom of that, it also held key lower support in mid-August looking forward into the following week. That bigger level was 4,340 on weekly MA-13 (loosely held on all sharp reactions) at that time, and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

In the event, the recent late week recovery back above the 4,425 area pointed to the strength of the psychological recovery as well as exceeding the key technical resistance areas. That led to the recent new all-time highs above the previous week’s 4,476.50 trading high (prior to the temporary selloff.) That again left the near-term Oscillator thresholds into 4,515 and 4,540 areas last week (on the rising MA-41), which it failed to maintain two weeks ago, fomenting the reaction.

This led to the violation of the 4,492 interim daily chart congestion after trading around it previous, with the more prominent 4,462 area also being violated two weeks ago. And while it traded back above that as well early last week, recent softening below it spoke of an ability to trend lower in the

near term. That left the more major 4,420-10 area as next support on both weekly MA-13 as well as that significant aggressive weekly UP Channel from the major March 2020 low.

Having tested that area into the Close two weeks ago and violating it from the beginning of last week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative fundamental influence flowing out of China. As usual there is a Tolerance below that (as seen on selloffs in both June and July) down to the 4,350 area lower congestion developed during the temporary July topping activity, and retested on the mid-August sharp temporary reaction to a 4,347.75 trading low. While that may seem to be a broad berth, on past form only below the 4,350 area does the market signal a full trend reversal.

Yet as always with these matters, the weekly Close was more important than temporary trading weakness below it. And the December S&P 500 future held overall against interim low-4,300 support, and ended the week back above the low 4,400 area. The extent of the temporary selloff means that it needs to be treated as a 4,410 weekly up channel DOWN Break. Yet that also means the Close back above it establishes it as a Negated DOWN Break, and therefore a support area. That is also consistent with weekly MA-13 moving up to the 4,430 area this week.

That said, the 4,348 area has reverted to the key support again this week on the renewed pressure. And much like last week, it was temporarily violated early this week, and is now churning around it. The difference is the daily 'trend flow' is not quite the same. Where last week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. This week it slipped on Tuesday, and is churning around it today with much less slippage. Will this see another late week recovery? We suggest watching the key US T-note support on that potential.

Thanks for your interest.

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